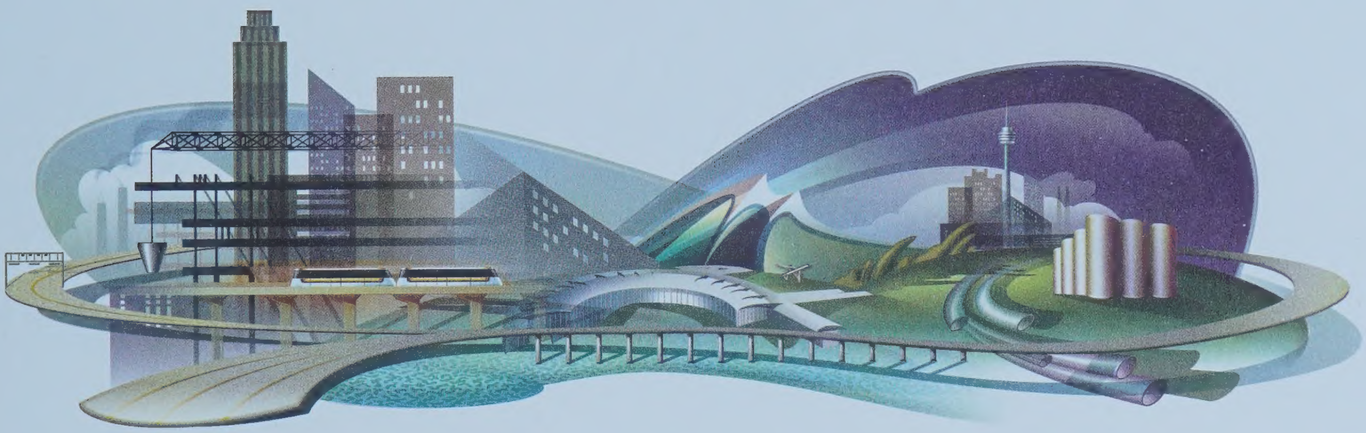

building things that matter ▸ armbro enterprises inc. 1999 report to shareholders

building things that matter ▸ Armbro Enterprises Inc. is now Canada's largest publicly traded construction company. By combining the expertise and resources of Armbro Enterprises and BFC Construction, we have created an exciting new company with an impressive history, capable of providing a broad range of construction services to a diverse array of markets – from heavy civil and utilities, to buildings and industrial, to transportation and nuclear. And, through our alliance with Hochtief AG, Armbro is now capable of delivering these services to a broader market, including the United States.

But size, diversity and global reach are of value only if united through strategic focus. At Armbro, these acquisitions and alliances have been engineered to put in place the resources and expertise we need to continue to build things that matter for our clients at the same time as we build value for our shareholders.


Segment Revenues
($ millions)
240
180
120
60
95
96
97
98
99
Infrastructure Development
Construction Operations
Shareholders' Equity
($ millions)
80
60
40
20
95
96
97
98
99
Backlog
($ millions)
1200
900
600
300
95
96
97
98
99

financial highlights

For the years ended December 31 (in thousands of dollars, except per share amounts)

	1999	1998	1997
Operations			
Revenues	**$ 213,114**	$ 151,584	$ 192,095
Operating income before non-operating items, interest and taxes	**10,204**	5,531	8,246
Net income	**6,072**	5,005	8,010
Cash flow from operations	**10,100**	7,669	10,429
Backlog	**1,113,413**	150,907	40,156
Financial position			
Working capital	**34,823**	4,942	2,621
Total assets	**460,550**	110,040	98,072
Long-term debt	**44,819**	12,440	7,900
Shareholders' equity	**72,557**	34,701	30,113
Long-term debt-to-equity ratio	**0.6:1**	0.3:1	0.3:1
Per common share (fully diluted)			
Net income	**$ 0.63**	$ 0.51	$ 0.80
Cash flow from operations	**$ 1.05**	$ 0.77	$ 1.03
Shareholders' equity	**$ 3.94**	$ 3.63	$ 3.09
Return on shareholders' equity (weighted average)	**15.9%**	15.4%	30.7%
Share information			
Number of shares outstanding			
Basic (weighted average)	**9,278,943**	9,161,364	8,169,143
Fully diluted	**9,631,323**	9,908,819	10,136,285
Total shares traded	**2,688,272**	4,103,158	2,586,845
Share price High	**$ 3.95**	$ 4.25	$ 4.25
Low	**$ 2.35**	$ 1.95	$ 2.40
Close	**$ 3.25**	$ 3.00	$ 2.80

◂ Seated in front: John M. Beck, Chairman and Chief Executive Officer
From left to right: Scott Balfour, Executive Vice President and Chief Financial Officer; Brian Swartz, Vice President Commercial Services and Corporate Counsel, BFC Construction Corporation; Meier Miller, Vice President, Treasurer and Secretary, BFC Construction Corporation

message to shareholders ▸

1999 was a year of significant achievements for Armbro. It was a year that marked Armbro's 70th anniversary. But more importantly, it was a year that set a new benchmark for performance and created a new foundation for Armbro's growth.

A large part of that foundation was put in place in December 1999 with our acquisition of BFC Construction Corporation ("BFC"), the most recent in a series of strategic acquisitions that included SC Infrastructure ("SCI") in 1997 and Miwel Construction in 1998. BFC adds its own long and proud history, dating to 1910, to that of Armbro's. BFC was already a partner with Armbro in delivering several key projects such as the ground-breaking Highway 407 located just north of Toronto – Canada's first all electronic toll highway and the Highway 104 toll road in Nova Scotia.

Adding to the Armbro strengths in highway construction and infrastructure development, BFC brings with it a full set of complementary capabilities in buildings, civil, industrial and utilities construction as well as in nuclear engineering and construction through a 24% interest in Canatom NPM and also manufacturing expertise through Innovative Steam Technologies and Footage Tools. Our coming together creates an

integrated, full-service organization – the largest publicly traded entity of its kind in Canada – capable of competing on an international level. This alliance offers Armbro, our employees, customers and investors significant growth potential and opportunities for the future.

In terms of financial performance, it is important to realize that Armbro's strong 1999 financial results were achieved primarily on the basis of its success prior to the late December 1999 acquisition of BFC. Net income increased 21% to $6.1 million or $0.65 per basic share ($0.63 per share, fully diluted) in 1999, compared to $5.0 million or $0.55 per basic share ($0.51 per share, fully diluted) for 1998.

The BFC transaction was concluded in late December and the economic benefits are expected to accrue in 2000 and subsequent years. An additional benefit resulting from this acquisition is the strategic alliance that we have formed with Hochtief AG, one of the largest construction companies in the world. This relationship adds financial capacity, technical resources and geographic diversity to those strengths already resident within Armbro. The synergies with Hochtief and its subsidiaries and associated companies world wide are significant and are just beginning to emerge.

We began 2000 with an unprecedented backlog of $1.1 billion in secured contracts most of which are to be executed through 2000 and into 2001. This sound revenue base underlies the many exciting opportunities for growth that we are developing in each of our core business segments – Armbro Construction, BFC Buildings, BFC Civil, BFC Industrial, BFC Utilities, SC Infrastructure – as well as in Innovative Steam Technologies, Canadian Highways International and Canatom NPM.

People building things that matter

Whether we are building a new toll highway across Israel or installing new runway lighting at Pearson International Airport in Toronto, in each of our business units we always remember that companies do not build things – people do. In our case, we are fortunate to have some of the best, most experienced people in our industry. Many of these dedicated individuals have been with us for more than 25 years, a fact that

we proudly display on the pages of this report. Their dedication has helped us succeed in a demanding and ever changing industry and their diligence has allowed us to maintain an exemplary record of safety. Armbro Construction won the 1999 Ontario Road Builders' Association Routly Safety Award for logging more than two million man-hours without a lost-time injury from 1996 to the end of 1998. As well, in a recent Category Three Health & Safety Audit from the Construction Safety Association of Ontario, BFC Construction Corporation achieved an industry-leading overall score of 99 percent. This audit compared BFC safety programs to the highest standards used in Canada, the USA and Europe. Individual BFC divisions have also been rewarded for their safety performance. BFC Industrial won the 1999 Hamilton Construction Safety Association award for achieving the best safety performance in the Industrial Construction sector in the greater than one million man-hour category. In addition, BFC Industrial consistently worked more than one million man-hours over the past two years without a lost time injury and their large fabrication facility has worked more than 1,000 days without a lost time injury. BFC Frontier was recognized by the State of Washington for having the best construction company safety program and most improved safety performance in 1999.

These are the kind of results that make me particularly proud to close with a vote of thanks to every single member of our team. With their diligence, skill and enthusiasm, we will continue to excel in serving our customers and in exceeding their expectations.

In addition, on behalf of our employees and our shareholders, I would like to acknowledge the many years of outstanding service that our retiring Directors, Austin Beutel, Bruce Carruthers, Shirley Duffy, Paul Giannelia, Paul Mingay and Geoff Smith provided to Armbro over their respective terms. I also welcome our new Directors, Rolf Kindbom, Wolfgang Koch, Tom Leppert and Busso Peus, each of whom will bring added international perspective and industry expertise to the direction of the Company.

John M. Beck ▸ Chairman and Chief Executive Officer, June 30, 2000

operating structure ▸ An exciting new enterprise has emerged from bringing together the expertise of Armbro Construction, BFC Construction and SC Infrastructure. Our combined track record includes many of the icons of our nation: from the St. Lawrence Seaway to the Confederation Bridge; from major sections of the original Trans-Canada Highway to 407 ETR, the country's first all-electronic toll highway; from the Parliament Buildings at Queen's Park in Toronto to Terminals 1 and 3 at Pearson International Airport; from the Molson Amphitheatre to the SkyDome; from the Rogers Pass railway tunnel to the CN Tower. Now our reputation for innovation, quality and performance is expanding world wide, in countries as diverse as China, India, Israel, Korea and Poland.

	Armbro Construction	BFC Buildings	BFC Civil	BFC Industrial
Development & Project Financing		●	●	
Design & Engineering	●	●	●	●
Procurement & Construction	●	●	●	●
Operation & Facilities Management	●	●		●
Manufacturing & Fabrication	●			●


Jim Rosien, President

Armbro Construction Limited provides construction services focussed primarily on transportation and utilities infrastructure. Armbro has been building roads, bridges, underground utilities and airport runways since the 1920s. During that time construction techniques have changed dramatically to keep pace with the performance demands of the end user. Armbro Construction has always been at the vanguard of innovation in construction technology.


Jim Dougan, President & CEO

BFC Buildings is responsible for the construction of major facilities for some of our fastest growing clients including Nortel Networks, Cineplex-Odeon and Federal Express. Working with discriminating clients always brings out the best in our people because it gives them the chance to add value and to find innovative solutions. The end result is continual improvement to our processes and a client that values and trusts its relationship with our people.


Doug Steels, Vice-President

BFC Civil tackles heavy construction projects of the largest and most complex scale: hydroelectric dams and thermal generating stations, railway tunnels and subways, airports and shipyards. Since 1910, we have been helping our clients deliver landmark projects in Canada and in more than 30 countries around the world. We are equally well known for smaller projects that present unique construction challenges from Olympic bobsled runs to remote radar sites.


Greg Kozicz, President

BFC Industrial works alongside major manufacturing companies like Toyota, Ontario Power Generation and Stelco to install and maintain the complex facilities that these companies operate across North America. The BFC Industrial team works closely with customers to maximize up-time of production facilities at the lowest possible cost and clients continually rate our service and professionalism as outstanding.

			Affiliates		
	C Utilities	SC Infrastructure	Canadian Highways International	Canatom NPM	Innovative Steam Technologies
	●	●	●		
		●	●	●	●
	●	●	●	●	
	●	●	●		
	●				●

Mullin, President

Paul Giannelia, President

C Utilities provides spe- alized underground con- ruction and installation rvices to some of North nerica's leading energy d communications ser- es companies including ll Canada, Rogers mmunications, Enbridge nsumers Gas and Union s. In working with these ents, our people have en able to pioneer con- ruction techniques that duce project costs and prove overall project anagement.

SC Infrastructure Inc. offers infrastructure development, finance, design, construction, operation and maintenance services to the public and private sectors, with a strong focus on transportation related undertakings. We provide the leadership to compete on a global basis from our North American base with the in-house working knowledge and resources for creating innovative projects with the right financial, commercial and technical solutions.

Canadian Highways International Corporation, in which the Company has a 50% interest, is a world renowned highway development company specializing in public-private partnerships. It is a full-service developer with capabilities in finance, design and engineering, operation and maintenance of large-scale highway projects such as Ontario's 407 ETR and Nova Scotia's Cobequid Pass. It is a partner in the Derech Eretz consortium that is developing the US$1.2 billion Cross Israel Toll Highway.

Canatom NPM Inc., in which the Company has a 24% interest, specializes in engineering, procurement, construction management and commissioning for nuclear projects both domestically and internationally. Canatom is currently involved in the engineering and construction of two CANDU 700-megawatt nuclear power plants in Quinshan, China.

Innovative Steam Technologies Ltd., a wholly owned subsidiary, designs, manufactures and sells a once through heat recovery steam generator. It is a simple continuous flow heat exchanger that converts all feed-water into clean dry super heated steam for power generation and cogeneration plants in domestic and international markets.

SCI was a major contributor to the success of one of the world's most challenging civil engineering projects, the $1 billion Confederation Bridge that connects Prince Edward Island with New Brunswick (below). In fact, an innovative construction process developed by SCI to make the 13 km bridge span possible is now being applied to the SAR Transit Joint Venture's Vancouver Sky Train construction solution (left).

Armbro Enterprises operates through six business units – Armbro Construction, BFC Buildings, BFC Civil, BFC Industrial, BFC Utilities and SC Infrastructure. In addition, the Company has a wholly owned subsidiary, Innovative Steam Technologies Ltd. and an economic interest in two consortia – Canadian Highways International Corporation and Canatom NPM Inc. The activities of these business units and related companies are captured, for financial reporting purposes, in terms of their contribution to one of the following broad operating segments – Infrastructure Development or Construction Operations.

infrastructure development ▸ Through SC Infrastructure Inc. ("SCI") as well as through our interest in Canadian Highways International Corporation ("CHIC"), Armbro Enterprises is working with governments and their agencies to find new ways of conceiving, planning, financing, designing, developing, building and operating their infrastructure projects. Armbro has participated in a significant number of public-private partnerships world wide. This expertise makes us a potential partner for projects such as the proposed $12 billion redevelopment of the Toronto waterfront, which includes over $5 billion in infrastructure spending alone, and the $20 billion five-year initiative launched by the government of Ontario to renew and expand the province's infrastructure. A similar initiative is underway in the United States where approximately US$120 billion will be spent to upgrade and replace infrastructure.

For 1999, revenue in this segment increased 320%, from $18.0 million in 1998 to $75.8 million in 1999. This was due primarily to Armbro's involvement, through its wholly owned subsidiary SCI, in the $209 million contract for the design and construction of the Sky Train rapid transit system in Vancouver and Armbro's continuing involvement through CHIC in the US$1.2 billion Cross Israel Highway Project.

The Company achieved financial closing on the Cross Israel project in October of 1999 and construction started immediately. Armbro and BFC Construction ("BFC") are part of the Derech Eretz Consortium that is financing, designing, building and will operate the 86 km toll highway, the first phase of a 300 km highway and Israel's most ambitious infrastructure project. The Company's participation in this venture is an example of our ability to market world wide the expertise gained as key members of the consortia that completed two state-of-the-art toll highways: Canada's first all-electronic toll highway, the $1 billion 407 ETR near Toronto and the Highway 104 Cobequid Pass in Nova Scotia, Canada's first privately financed toll highway.

As a result of its acquisition of BFC, Armbro's overall equity interest in the Cross Israel project has increased to 22.2%. Income from the operating phase of this thirty year concession will help diversify the Company's revenue base and reduce the impact of the cyclicality that is historically a part of the construction industry. The first section of the highway is slated to open in 2002, with the full project scheduled for 2004 completion.

The $209 million Sky Train design-build contract was won this year by the SAR Transit Joint Venture, of which Armbro's subsidiary SCI is a 40% participant. Completion of the 18 km extension of Greater Vancouver's Sky Train is expected by early 2001.

On the international front, SCI continued to be involved in the Gdansk grain terminal in Poland, a $100 million design-build project that began in late 1998.

construction operations ▸ In 1999, construction operations were focused on road and heavy civil construction activities within the Ontario market. These include the construction of highways, bridges, tunnels, marine works, airport runways and related facilities. For 1999, revenue increased to $137.4 million from $134.8 million in 1998.

As a leader in road building, Armbro Construction is awarded many Ministry of Transportation of Ontario ("MTO") contracts. Current projects include a $25 million contract to construct additional core lanes, ramps, barrier walls, illumination and signage for a portion of Highway 400 in Toronto, the $26 million final phase of Highway 416 linking Highway 401 to Ottawa and a $41 million joint venture contract to re-route Highway 11 in Northern Ontario. Armbro is also carrying out a $25 million contract to upgrade the Highway 409 outbound collector road system from the New Terminal at Pearson International Airport in Toronto. Armbro demonstrated its industry-leading commitment to new technology and processes by pioneering a new stone mastic asphalt paving technology capable of extending the life of a road from four to six times, to complete a major section of Ontario's Highway 401. Through its 33.3% ownership in Roto-Mill Services Ltd., Armbro is developing expanded asphalt stabilization as a recycling technique. In 1999, Armbro Construction was awarded the MTO Asphalt Paver of the Year Award for the second time in the past three years.

In future, through the increased capacity and expertise brought into Armbro through our acquisitions and the added reach provided by our strategic alliances, our activity in construction operations will continue to broaden in geographic and operational scope. For example, BFC Buildings has almost completed Phase 1 of the Call-Net Centre, which will be one of the largest commercial office developments in Toronto's history. This adds to the portfolio of high-tech regional headquarters facilities that BFC Buildings has already created for companies like Nortel Networks and Hewlett-Packard. Projects recently won by BFC Buildings include the Montreal Palais des Congrès, a design-build contract through a joint venture in which the Company holds a one-third interest. Scheduled for completion in May 2002, the renovation and expansion has a total budget of $240 million and will double the capacity of Montreal's Convention Centre. Work will be completed while the Palais des Congrès remains fully operational. BFC Buildings also continues to provide construction services to Cineplex-Odeon,

- Focussed on continual improvement, strengthening customer relationships and providing cross-country service, BFC prides itself on repeat business earned with national clients including Cineplex-Odeon.
- BFC continues to break new ground in providing innovative solutions and cutting edge techniques to progressive clients in the fibre optics sector.

- BFC Industrial performs both maintenance and new installation work for some of North America's largest industrial clients. Pictured here is maintenance turnaround work at Cami Automotive in Ingersoll, Ontario.
- With a firmly established reputation for having constructed major airports across Canada and internationally, Armbro and BFC are playing significant roles in the $4.4 billion redevelopment of Toronto's Pearson International Airport.

having successfully completed projects in Ontario, Alberta, British Columbia and Washington State. An 18-screen, 4500-seat Cinetropolis theatre complex in Etobicoke, Ontario, to be the Cineplex Canadian flagship location, is one of four state-of-the-art entertainment venues currently under construction.

BFC Frontier continues to nurture and develop strong relationships with Native American Tribes. Focussing on the goals of these key clients has resulted in the award of projects such as a 110-room hotel for the Coeur d'Alene Tribe in Worley, Idaho and a 159-room hotel and casino for the Quinault Nation in Ocean Shores, Washington. Work was recently completed on the 80,000 s.f. casino expansion for the Muckleshoot Tribe in Auburn, Washington. New projects for BFC Frontier include the temporary Twin Pines Casino facility for Middletown Rancheria in Middletown, California and the remodelling of the existing casino for the Port Gamble S'Klallam Tribe in Kingston, Washington.

Armbro and BFC are also playing central roles in the $4.4 billion, nine-year redevelopment of Toronto's Pearson International Airport. Both companies are very familiar with airport construction, having built airport terminals and runways in Toronto, Montreal, Calgary, Vancouver and Budapest, Hungary. BFC's long history at Pearson ranges from the building of the original Terminal 1 to the more recent Terminal 3 while Armbro built many of Pearson's original runways. BFC Buildings is today a 50 percent joint venture partner constructing the four-million-square-foot New Terminal building with its 130 passenger gates. The Utilities Division is also helping to construct the new electrical infrastructure for runway landing and guidance systems. By year-end, Armbro Construction will have completed a four-lane infield tunnel beneath three active taxiways and a runway. Aggressive schedules and strong project management teams maintained by Armbro and BFC ensure that Canada's busiest airport remains in full operation during the redevelopment period.

In the spring of 1999, BFC Utilities completed a challenging 30 km fibre optics installation for AT&T Canada in Markham, Ontario, home to many of Canada's technology leaders. Although permits and approvals delayed the start date, the project was completed ahead of the original schedule. Innovative thinking and leading edge technology used to install this fibre optic network was instrumental to our success.

In 1999, BFC Utilities expanded its services into Quebec and the Maritimes with initial focus on mainline and distribution gas. In Quebec, we completed the conversion of a natural gas pipeline to a crude oil pipeline running from Portland, Maine to the refinery in Montreal. The challenges included working through the rugged Sutton Mountains and excavating in solid rock conditions alongside a high-pressure oil pipeline. In the Maritimes, with joint venture partners, we successfully carried out the installation of a dual eight-inch natural gas and natural gas liquids concrete coated pipeline across the 1,600-metre Strait of Canso for

Canadian Highways International Corporation is pioneering a new way of doing business. Through innovative partnerships with the public sector, we are developing superior toll highways such as the all-electronic 407 ETR near Toronto, more quickly and with less financial risk to the public than ever before.

Sable Offshore Energy. Using barges, we placed 131,000 tonnes of aggregate in depths of water of up to 50 metres to cover the pipelines.

The Fabrication Unit of BFC Industrial is proud to have achieved ISO certification in 1999. During the year, this Unit set up a joint company with AQTS, an Irving affiliate, to pursue industrial fabrication opportunities in the Maritimes. Large contracts with Dofasco, Fluor Daniel and the Millennium Construction Consortium resulted in record revenues for this division. The Automotive Unit successfully completed a large amount of work at Chrysler plants in Bramalea and Windsor and for Toyota in Indiana. Automotive also secured a large contract to install the process equipment for the Air Canada Cargo facility at the Pearson International Airport. The Projects Unit achieved significant results in obtaining contracts with Ontario Power Generation, Lake Erie Steel and Procter & Gamble. Based in Alberta, the Western Unit was awarded a large module assembly contract by the Millennium Construction Consortium which they delivered on time and on budget.

In 1999, BFC Civil continued its role as a major constructor of heavy civil engineering works for the transportation and energy sectors on both a national and international platform. In Canada, as general contractor or in joint venture, BFC Civil proceeded with construction of the Sheppard Subway Twin Bored Tunnels in Toronto, the Surrey Guideway Cut and Cover Tunnel in Vancouver and the underground powerhouse excavation and concrete works for the Ste-Marguerite Powerhouse in Quebec. In India, BFC Civil is the sponsor of the Joint Venture building the dam and headrace tunnel for the 1500 MW Nathpa Jhakri hydroelectric project in the Himalayan Mountains.

armbro proudly recognizes employees who have served the company for more than 25 years

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corporate information

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building things that matter ▸ armbro enterprises inc. financial report 1999

The management discussion and analysis should be read in conjunction with the Company's 1999 Consolidated Financial Statements and Notes.

Results of Operations

Introduction

The Company acquired BFC Construction Corporation ("BFC") effective December 22, 1999. BFC was a significantly larger company than was Armbro Enterprises Inc. ("Armbro") prior to the acquisition. The financial impact on the consolidated balance sheet as at December 31, 1999 when compared to the year prior is significant. BFC's balance sheet has been fully consolidated as at December 31, 1999. BFC's results of operations and cash flows have been included only for the period December 23 to December 31, 1999. As a consequence of this acquisition, the 1999 results of operations discussed below are not indicative of future financial results.

Income Statement

Revenues

Revenues for the year increased by 40.6% to $213.1 million from $151.6 million. The majority of the revenue growth is attributable to the Infrastructure Development segment. Revenues for the Company's Construction Operations segment also demonstrated growth in 1999.

The Company's net change in revenues from 1998 to 1999 is reconciled below:

	$	% Increase (Decrease)
Internal growth	$ 67,743	44.7
Acquisition (BFC)	8,005	5.3
Reduction in Highway 407 activities	(14,218)	(9.4)
Net revenue increase	$ 61,530	40.6

The Company's revenues are comprised of:

($ millions)	**1999**	1998	Change	% Increase
Construction Operations	**$ 137.4**	$ 134.8	$ 2.6	1.9
Infrastructure Development	**75.8**	18.0	57.8	321.1
Inter-segment	**(0.1)**	(1.2)	1.1	
	$ 213.1	$ 151.6	$ 61.5	40.6
Revenue Distribution				
Construction Operations	**64.5%**	88.9%		
Infrastructure Development	**35.6%**	11.9%		
Inter-segment	**(0.1%)**	(0.8%)		
	100.0%	100.0%		

Construction Operations

Revenues for this segment increased by $2.6 million or 1.9% to $137.4 million from $134.8 million in 1998. Sources of the net increase are as follows:

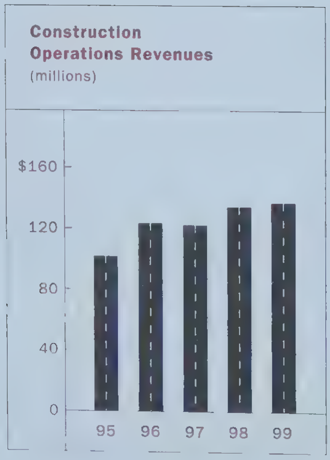
	$	% Increase (Decrease)
Internal growth	$ 620	0.5
Acquisition (BFC)	6,514	5.3
Reduction in Highway 407 activities	(4,512)	(3.7)
Net revenue increase	$ 2,622	2.1

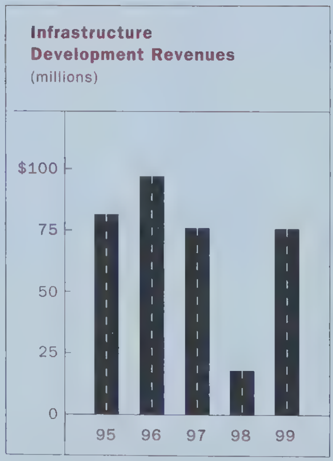
A key strategic objective for this segment was to continue the already successful initiative of replacing the Highway 407 project and sub-contractor revenues with growth from within its core construction contract business with the Ministry of Transportation of Ontario ("MTO") and other public and private sector customers.

Infrastructure Development

Revenues for this segment increased by $57.8 million or 321.1% to $75.8 million in 1999 from $18.0 million. Sources of the net increase are as follows:

	$	% Increase (Decrease)
Internal growth	$ 65,995	366.7
Acquisition (BFC)	1,491	8.3
Reduction in Highway 407 activities	(9,706)	(53.9)
Net revenue increase	$ 57,780	321.1





The increase in this segment's revenues was primarily attributable to the operations of the Company's wholly-owned subsidiary SC Infrastructure Inc. ("SCI"). These operations included the design-build project for a grain terminal and handling facility in Gdansk, Poland and work on the contract for the design and construction of the "Sky Train" rapid transit system in Vancouver, BC (the "Vancouver LRT" project) in which SCI has a 40% joint venture interest.

The reduction of $9.7 million in Highway 407 activities represents the reduced activities of the Company's 25% proportionate interest in the Canadian Highways Investment Corporation ("CHIC") joint venture that completed the construction of Highway 407 in the Province of Ontario during 1998.

Acquisition of BFC

In analysing 1999 revenues for the purpose of being more indicative of the trend for 2000, the table below sets out the revenues of Armbro and BFC combined on a pro-forma basis for the full year in each of 1998 and 1999, after eliminating the effect of consolidating BFC for the latter part of December 1999.

	1999	1998
Armbro	**$ 204,309**	$ 151,584
BFC	**678,623**	638,412
	$ 882,932	$ 789,996

Gross Margin

The gross margin (revenues less costs and expenses but before marketing, general and administrative, and depreciation and amortization expenses) for 1999 increased to $28.8 million or 13.5% of revenues as compared to $17.9 million or 11.8% of revenues for 1998. The increase of $10.9 million is attributable to revenue growth and a shift in sales mix to a higher proportion of Infrastructure Development work completed, which in principle yields higher margins than that of Construction Operations. The Company expects its gross margin ratio to be lower in 2000 as a result of the impact of the BFC acquisition, which will increase revenues from Construction Operations as a proportion of total revenues when compared to 1999 results. Additionally, certain components of BFC's Construction Operations provide lower margins, reflecting their lower capital requirements and lower risk profiles.

Marketing, General and Administrative

Marketing, general and administrative expenses increased by $5.1 million to $14.0 million or 6.6% of revenues from $8.9 million or 5.9% of revenues in 1998. The net increase is primarily attributable to four factors:

- Armbro's 25% share of CHIC's bid and proposal costs with respect to its unsuccessful offer to purchase Highway 407 from the Province of Ontario
- The approximate $1.1 million in costs added by the consolidation of BFC for the latter part of December 1999
- Increased administration costs for SCI as it built up its internal infrastructure to respond to the needs of its expanded revenue base
- The significant bid and proposal costs incurred in the pursuit of other infrastructure development contracts.

Depreciation and Amortization

Depreciation and amortization increased by $0.8 million to $4.9 million in 1999, resulting primarily from incremental depreciation expense attributable to depreciation on SCI's proportionate share of capital assets utilised in the Vancouver LRT project. The Company expects its 2000 depreciation expense to increase primarily due to the impact of the BFC acquisition.

Gain on Sale of Capital Assets

Gains realised on the disposal of capital assets, primarily heavy construction equipment, equalled $0.4 million compared to $0.7 million in 1998.

Operating Income

Operating income (income before non-operating asset sale gains, net interest expense and income taxes) increased by $4.7 million or 84.5% to $10.2 million or 4.8% of revenues in 1999 from $5.5 million or 3.6% of revenues in the previous year. This increase was primarily attributable to the increase in revenues in the Infrastructure Development segment as well as the effect of consolidating BFC for the latter part of December 1999.

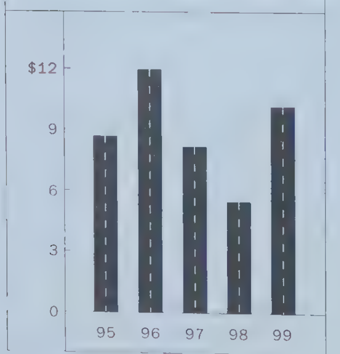
Operating income, expressed as a percentage of revenue, is expected to be lower in 2000 as a result of the acquisition of BFC, for the reasons described above.

Construction Operations

Operating profit decreased to $2.4 million from $4.3 million in 1999 as a result of the following factors:

- Construction Operations encountered increased competition and pricing aggressiveness in certain of its business sectors, resulting in lower margins.
- Certain contracts encountered unexpected delays and additional costs. The Company has submitted claims to the clients in an effort to recover these additional costs. Consistent with the Company's accounting policy, it has fully provided for the additional costs but it has not reflected the value of the related claims in its financial results for the year.
- Margins and segment operating profit contributions from the Company's direct participation as a sub-contractor in the Highway 407 project decreased from 1998, the year in which the project was completed.

Operating Income
(millions)



Infrastructure Development

Operating profit from Infrastructure Development increased 288.4% by $7.5 million to $10.1 million in 1999. The main factors contributing to the increase were operating income earned by SCI on its increased revenues and gains realised from recoveries of bid and proposal costs previously expensed on the Cross Israel Highway project.

Interest Expense

Net interest expense increased $0.7 million to $1.8 million, primarily reflecting the Company's increased indebtedness to support 1999 capital expenditures and to finance development costs and partner advances for the Cross Israel Highway project. Incremental interest expense attributable to the acquisition of BFC equalled $0.2 million.

Income Taxes

The Company had a higher effective tax rate in 1999 at $3.4 million or 35.8% of income versus $0.6 million or 10.3% of income in 1998. This change resulted from the fact that certain of the Company's operations were carried out through foreign legal entities or through separate Canadian entities which it does not fully own and where Armbro's non-capital losses carried forward could not be utilised to shelter the pre-tax earnings of those entities.

As at December 31, 1999, the Company had approximately $40 million in available tax losses carried forward which can be used to shelter future income from income taxes payable until 2006. Armbro anticipates that it will be able to utilise the entire amount of non-capital tax losses carried forward at or earlier than the scheduled expiry dates.

The Company anticipates that the application of the required new accounting standard dealing with Accounting for Corporate Income Taxes will have an adverse effect on its consolidated average income tax rate in 2000; however, cash taxes actually paid will be unaffected by this accounting policy change. (See "Changes in Reporting of Tax Losses Carried Forward" below.)

Net Income

Net income increased 21.3% to $6.1 million or $0.63 per common share on a fully diluted basis compared to $5.0 million or $0.51 per common share on a fully diluted basis in 1998.

Balance Sheet

The consolidated balance sheet as at December 31, 1999 is not comparable to the prior year as a result of the impact of the BFC acquisition. The purchase equation for the acquisition is set out in Note 2 to the financial statements.

Generally, year-over-year changes to the balance sheet items that are directly attributable to the operations of the businesses primarily reflect the BFC acquisition as well as the revenue growth in the Infrastructure Development segment. The items affected include: accounts receivable, holdbacks receivable, inventories, accounts payable and accrued liabilities, holdbacks payable and deferred revenues.

Cash and Short-Term Investments

The $101.0 million cash position as at December 31, 1999 includes $22.3 million of cash held by various Company joint ventures and affiliates and therefore is not available for use by the Company until distributed. A further $40.2 million is presently used to secure letter of credit obligations of like amount relating to the Nathpa Jhakri Hydro-Electric ("NJPC") project being constructed in Northern India and in which BFC has a 45% joint venture interest. The balance of $38.5 million is available for use by the Company for either debt reduction or general working capital purposes.

Long-term Debt and Convertible Debentures

Long-term debt increased significantly during the fourth quarter of 1999 compared to 1998 as a result of the BFC acquisition. The following table sets out the incremental amounts of debt and convertible debentures attributable to the Company's financing of the BFC acquisition and the long-term indebtedness assumed as a result of the acquisition:

	1999				1998
	Total	**BFC**	**BFC Acquisition Financing**	**Armbro**	Total
Long-term Debt					
Current portion	**$ 70,035**	**$ 10,000**	**$ 51,814**	**$ 8,221**	$ 4,885
Long-term debt	**35,954**	**20,000**	**–**	**15,954**	12,440
Total	**$ 105,989**	**$ 30,000**	**$ 51,814**	**$ 24,175**	$ 17,325
Convertible Debt					
Debt portion	**$ 8,865**	**$ –**	**$ 8,865**	**$ –**	$ –
Equity portion	**32,554**	**–**	**32,554**	**–**	–
Total	**$ 41,419**	**$ –**	**$ 41,419**	**$ –**	$ –

Hochtief Canada Inc. ("Hochtief") provided $48.0 million of the $51.8 million of acquisition debt (the balance of $3.8 million was provided by way of a term bank loan) and holds all of the outstanding principal amount of convertible debentures.

Subsequent to December 31, 1999 the following occurred with respect to the BFC acquisition financing:

- The Company borrowed an additional $4.6 million from its bank to pay for the balance of the BFC shares that were tendered early in January 2000. The total bank financing of $8.4 million was then repaid in January 2000 using available BFC cash resources.
- The Company repaid $8.0 million of the $48.0 million debt to Hochtief in March 2000, again using available BFC cash resources.
- Hochtief converted the $31.5 million debenture ($31.5 million of the $32.6 million referred to above) into 8,744,197 common shares of the Company on March 20, 2000 and effectively holds 48.6% of the Company's total outstanding common shares.

Liquidity and Capital Resources

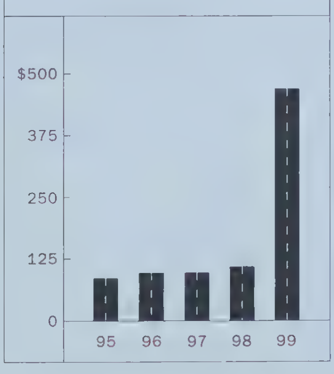
The Company's balance sheet as at December 31, 1999 highlights the significantly increased cash position of the Company but also reflects a similar increase in debt. These increases principally relate to the impact of the acquisition of BFC. Reflecting the Company's view that BFC was overcapitalized, the Company's strategy for the acquisition was to arrange bridge financing primarily through Hochtief to acquire BFC and then use the surplus cash resources of BFC to repay a substantial portion of this new debt.

Due to the fact that BFC was acquired on December 22, 1999, the repayment of the debt used to finance the acquisition had not yet occurred by the Company's year-end on December 31, 1999.

The Company financed its $106.4 million acquisition of BFC as follows:

($ millions)	
Acquisition Bank Loan	$ 8.4
Term Loan	48.0
Convertible Debenture 1	31.5
Convertible Debenture 2	9.9
Working Capital	8.6
	$ 106.4

Total Assets
(millions)



The full amount of the Acquisition Bank Loan and $8.0 million of the Term Loan were repaid subsequent to year end from BFC cash resources.

As part of the Company's financing arrangements, Hochtief has agreed to provide alternate security in respect of up to $40.0 million of the Company's aforementioned NJPC letters of credit, so as to allow for the release of the cash collateral presently securing these letters of credit. The funds then released from the cash collateral accounts of BFC will be used to repay the remaining $40.0 million balance of the $48.0 million Term Loan. This transaction, expected to occur in the second quarter of 2000, will improve the capital structure of the Company and will reduce overall interest costs.

The Convertible Debenture of $31.5 million was converted into equity during the first quarter of 2000. All of the conditions required for the mandatory conversion were fulfilled. Accordingly, it was recorded as equity on the Company's balance sheet as at December 31, 1999.

The Convertible Debenture of $9.9 million remains outstanding. It is anticipated that over the term of this facility, all or a substantial portion of it will be converted into equity. This facility has no repayment requirements nor prepayment privileges until 2006.

In summary, $87.9 million or 90% of the debt used to acquire BFC has been or is expected to be repaid from surplus cash resources or converted into equity by the end of the second quarter of 2000. These repayments are expected to positively affect the operations and profitability of the Company.

BFC has an unsecured note payable of $30.0 million. The $10.0 million current portion of this note is scheduled for payment in October 2000. The Company intends to request the continued support of the note holder to avoid the necessity of prepayment that may result from the use of BFC's surplus cash resources to reduce the consolidated debt of the Company in the manner outlined above. At the same time, the Company is in discussions with its principal banker to provide sufficient term loan support to allow for the prepayment of the facility, either if desired by the Company or if so required by the note holder.

The Company is also in discussions with its principal banker to obtain an increased operating loan limit from the existing $16.0 million to reflect the increased size of the Company and thus its working capital needs, resulting primarily from the acquisition of BFC. The Company has been advised that such increased accommodation has been approved by the credit committee of the Company's principal banker and the Company anticipates the availability of this facility upon the completion of the requisite documentation during the second quarter of 2000.

The Company believes that with the additional term and operating loan support presently being considered by its principal banker and with the existing cash reserves of the Company, it will have sufficient capital resources available to meet its day-to-day needs as well as to allow it to pursue new investment opportunities.

Risks and Uncertainties

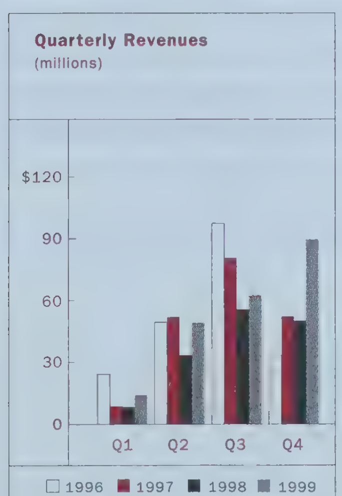
Dependence on the Public Sector

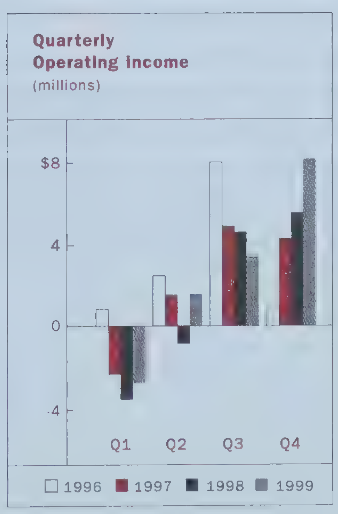
A significant but reducing portion of the Company's revenue is derived from contracts with the provincial government through the MTO or its agencies and from contracts with regional and municipal governments. In 1999, these contracts accounted for approximately 34% of the Company's revenues (1998-62%, 1997-70%). Consequently, any reduction in demand for the Company's services by the public sector in Ontario would likely have an adverse effect on the Company if that business could not be replaced from within the private sector. This percentage will again decrease in 2000 as a result of revenues generated by BFC, CHIC and SCI from other clients and in other regions of North America and internationally, and as the Construction Operations segment continues to secure additional contract volumes from private sector clients.

In any event, the Company believes that the overall need for additions, expansion and improvements to transportation related infrastructure, in Ontario and elsewhere, continues to increase and that governments will increasingly rely on alternatives such as design-build and public-private partnership contracts to complete these projects. Accordingly, the Company believes that any reduction in budgetary commitments of governments in Ontario to infrastructure funding will create new and exciting opportunities in an area of particular expertise for the Company.

Seasonality of Operations

The construction industry in Canada is seasonal in nature due to weather conditions with less work performed in the winter and early spring months. Accordingly, the Company experiences a seasonal pattern in its operating results with the first quarter of the year typically reflecting the lowest revenue as well as recording operating losses. Results for any one quarter are therefore not indicative of the results for any other quarter or for the year. However, the activities of CHIC and SCI and the acquisition of BFC significantly expand the scope and geographic coverage of the Company's operations. This as well as the winter maintenance activities of the Company, primarily through Miwel Construction, help to decrease the seasonal fluctuations of the Company's operating results.





Economic Factors

General economic downturns adversely affect the Company. While economic downturns have not generally resulted in any substantial reduction in the budgetary commitments of the Company's government clientele, private sector contract work typically is significantly reduced, which in turn increases competition for public sector contracts. This traditionally has had an adverse effect on contract margins and therefore, on the Company's profitability. However, with the activities of BFC, CHIC and SCI all having a national and international component, the dependence upon the economic climate in Ontario is expected to decrease in 2000.

Environmental Factors

Unfavourable weather conditions represent perhaps the most significant uncontrollable risk for the Company. Construction projects are susceptible to delays as a result of extended periods of poor weather which can have an adverse effect on profitability from either late completion penalties imposed by the contract owner or from the incremental costs of overtime work utilised to offset the time lost due to weather.

Labour Factors

A significant portion of the Company's labour force is unionized and accordingly, the Company is subject to the detrimental effects of a strike or other labour unrest.

Contract Factors

A substantial portion of the Company's revenue is derived from fixed unit price construction contracts, under which the Company is committed to provide services and materials at a fixed unit price (e.g. dollars per tonne of asphalt or aggregate). While this shifts the risk of estimating the quantity of units to the contract owner, any increase in the Company's cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other factors, will negatively affect the Company's profitability.

The Company is also involved in lump-sum contracts wherein a commitment is provided to the contract owner to complete the project at a guaranteed maximum price ("GMP"). In this case, any errors in quantity estimates must be absorbed within the GMP in addition to the risk factors of a unit price contract, thereby adding a further risk component to the contract. However, this added risk component typically means that cost contingencies are incorporated within the estimate and that estimated gross margins from these contracts tend to be higher to allow for the increased risk.

The Company is increasingly involved in design-build contracts where, in addition to the responsibilities and risks of a unit price or lump-sum construction contract, the Company is responsible for certain aspects of the design of the facility being constructed. This form of contract adds the risk of design errors to the Company, although most of this added risk is insured by the Company and/or assumed by the design engineers that are retained by the Company. Again this risk provides for increased pricing and margin opportunities for the Company. The Company anticipates that design-build contracts will represent an increasing component of its revenue base, as the Company is now well positioned to successfully compete for this form of contract with its recent acquisitions of SCI and BFC.

The Company is also involved in construction management contracts where the Company works closely with its client to manage a construction project on the client's behalf in return for a fee. The risks associated with construction management contracts are typically much lower than for unit price or lump-sum contracts. SCI and BFC are well positioned and have a successful history in competing for these contract opportunities. The Company anticipates that construction management contracts will form an increasing part of its revenue base in 2000 and beyond.

Certain of the Company's contract requirements may also involve financing elements, where the Company is required to provide one or more of letters of credit, financial guarantees or equity investments. Additionally, some of Armbro's potential contract opportunities are outside of Canada and as such involve risks associated with international activities.

Disputes with clients for additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions are an unfortunate but sometimes necessary part of the construction process. Because the Company's accounting policy is that it will record all costs for these changes when known, while it will not record the revenue anticipated from such claims until they are certain, such events can have a material negative and/or positive impact on income and liquidity.

Large Contract Factors

A substantial portion of the Company's revenues is derived from large projects, some of which are conducted through joint ventures. Opportunities for the Company to compete for these larger projects do not occur regularly. As a result, Armbro's ability to successfully compete for these opportunities and the length of time required to execute these projects are not predictable and therefore create risk of periods of irregular or reduced revenues. The recording of such events can distort revenues and incomes on both a quarterly and an annual basis and in some cases makes comparison of financial results difficult in particular reporting periods.

Access to Bonding and Pre-qualification Rating

Most of the Company's construction contracts require either sufficient bonding or MTO pre-qualification rating. The Company's bonding limit and annual pre-qualification rating amount continue to improve significantly on a year over year basis reflecting the continued improvement in Armbro's financial capacity. Management believes that Armbro's current financial capacity is more than sufficient to meet the Company's future anticipated requirements.

Financial Instruments

The Company did not utilise any derivative instruments in 1999 and does not foresee a requirement to use these instruments in the near future.

Outlook for the Business of the Company

As a public company, Armbro is committed to building a dominant position within its industry. To do so, the Company has focused on a three part strategy:

- expanding its existing Construction Operations sector;
- expanding activities in its Infrastructure Development sector by utilizing the Company's industry-leading expertise, and
- capitalizing on strategic acquisition opportunities to expand market presence.

The Company has been successful on all three fronts, attributable to the continued growth of the Construction Operations segment, as well as to the acquisitions of SCI Infrastructure Inc. in 1997, Miwel Construction Limited in 1998 and BFC Construction Corporation in 1999.

With the success of CHIC, SCI and BFC, Armbro has evolved from being an Ontario-based heavy civil contractor into the largest publicly traded construction company in Canada. The Company now has significant operations across Canada – British Columbia, Alberta, Ontario, Quebec and the Maritimes. It also has significant operations in the northwestern United States, as well as major construction activities overseas in Poland, Israel and India.

Through its acquisition of BFC, the Company has expanded its activities to include:

- Utilities construction and installations (telecommunications, hydro and gas installations, etc.)
- Industrial construction, installation and maintenance (nuclear and hydro electric plants, automotive facilities, etc.)
- Buildings construction (office towers, commercial and industrial complexes, entertainment centres, etc.).

This full range of capabilities, with its potential for integration, will increase the Company's market profile and open up possibilities for new, more challenging projects.

Armbro has not relinquished its leadership position in the infrastructure sector. Despite CHIC's unsuccessful attempt to purchase Highway 407 from the Ontario Government during 1999, the Company continues to be a key contributor to the industry-leading highway it helped build. In combination with BFC, Armbro is the largest contractor for the highway's new owners as they complete Highway 407's east and west extensions.

The Company's strength in the marketplace is also defined by broader relationships. At the time of the BFC acquisition, Armbro formed a strategic alliance with Hochtief AG, one of the largest construction companies in the world. This has provided Armbro with highly competitive financial and technical strengths, both internal and shared with Hochtief. The synergies with Hochtief and its subsidiaries and associated companies are just beginning to be realized. With these synergies, the future holds exciting opportunities for the Company.

Opportunities for 2000

The BFC acquisition will result in significantly increased revenues during fiscal 2000. Revenues for 1999, if calculated on a pro-forma basis to include BFC as if it has been acquired at the beginning of the year, were $883 million. Year 2000 results will additionally be influenced by the construction progress of the Cross Israel Highway project. With its acquisition of BFC, Armbro has effectively doubled its participation in that project to 22.2 percent.

Backlog, at record levels of $1.1 billion, will provide a strong base of contract revenues through 2000 and into 2001.

Looking forward, the Company is well positioned to capitalize on many new contract opportunities for 2000 and beyond.

Changes in Reporting of Tax Losses Carried Forward

To reduce both its cash income taxes payable and the income tax expense shown on the Company's statements of income, the Company has continued to enjoy the use of a significant balance of tax losses carried forward that have not been recognized on the Company's balance sheet. This practice and the resulting reduction in the cash taxes payable by the Company will continue.

On January 1, 2000 new rules came into effect that will significantly change the Company's financial reporting during 2000 and beyond. The new rules essentially require the Company to recognize on its balance sheet the financial benefit of the value of the tax losses carried forward that it determines is more likely than not to be used. It will now correspondingly record tax expense against its income. The application of these new rules by the Company will in effect, increase the Company's assets and book value but also reduce its reported net income as additional tax expense is recorded.

Normal Course Issuer Bid

The confidence of Management and the Board of Directors in the long-term growth potential of the Company was again demonstrated by the continued activity under the Normal Course Issuer Bid first adopted in 1997 and subsequently extended. A total of 853,200 shares, at a cost of $2.4 million, have been purchased up to December 31, 1999 including 331,600 shares purchased during 1999.

auditors' report

To the Shareholders of Armbro Enterprises Inc.

We have audited the consolidated balance sheets of Armbro Enterprises Inc. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
North York, Ontario
February 25, 2000

consolidated balance sheets

As at December 31 (in thousands of dollars)

	1999	1998
Assets		
Current assets		
Cash and cash equivalents (note 6)	$ **100,953**	$ 6,026
Accounts receivable (note 3)	**205,862**	49,337
Holdbacks receivable	**41,865**	8,889
Inventories	**4,423**	1,579
Income taxes	**973**	–
Prepaid expenses	**2,621**	1,307
Assets held for sale	**10,973**	125
	367,670	67,263
Capital assets (note 4)	**67,084**	39,482
Other assets (note 5)	**25,796**	3,295
	$ **460,550**	$ 110,040
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	$ **21,346**	$ 9,456
Accounts payable and accrued liabilities (note 3)	**155,325**	41,177
Holdbacks payable	**24,998**	2,826
Deferred revenue	**51,023**	3,972
Income taxes payable	**2,812**	5
Deferred income taxes	**7,308**	–
Current portion of long-term debt	**70,035**	4,885
	332,847	62,321
Long-term debt (note 8)	**35,954**	12,440
Other liabilities	**1,584**	–
Deferred income taxes	**8,743**	578
	379,128	75,339
Convertible debenture (note 9)	**8,865**	–
	387,993	75,339
Commitments and contingencies (note 13)		
Shareholders' Equity		
Capital stock (note 10)	**2,068**	1,914
Convertible debenture (note 9)	**32,554**	–
Retained earnings	**37,935**	32,787
	72,557	34,701
	$ **460,550**	$ 110,040

Approved by the Board,

John M Beck

John M. Beck, Director

Scott C. Balfour, Director

consolidated statements of income and retained earnings

For the years ended December 31 (in thousands of dollars except per share amounts)

	1999	1998
Revenues	**$ 213,114**	$ 151,584
Costs and expenses	**184,341**	133,645
Marketing, general and administrative expenses	**14,008**	8,928
Depreciation and amortization	**4,961**	4,133
Gain on sale of capital assets	**(400)**	(653)
	202,910	146,053
Operating income before the following	**10,204**	5,531
Gain on disposal of other assets	**(1,041)**	(1,148)
Interest (note 11)	**1,785**	1,101
	744	(47)
Income before income taxes	**9,460**	5,578
Income taxes (note 12)		
Current	**2,880**	241
Deferred	**508**	332
	3,388	573
Net income for the year	**6,072**	5,005
Retained earnings - beginning of year	**32,787**	29,134
Common share buyback (note 10)	**(924)**	(1,352)
Retained earnings - end of year	**$ 37,935**	$ 32,787
Earnings per share		
Basic	**$ 0.65**	$ 0.55
Fully diluted	**$ 0.63**	$ 0.51
Average number of shares outstanding		
Basic	**9,278,943**	9,161,364
Fully diluted	**9,631,323**	9,908,819

consolidated statements of cash flows

For the years ended December 31 (in thousands of dollars)

	1999	1998
Cash provided by (used in):		
Operating activities		
Net income for the year	**$ 6,072**	$ 5,005
Items not affecting cash -		
Depreciation and amortization	**4,961**	4,133
Gain on sale of capital assets	**(400)**	(653)
Deferred income taxes	**508**	332
Gain on disposition of asset held for sale	**(1,041)**	(1,148)
	10,100	7,669
Change in other balances relating to operations (note 15)	**7,843**	(14,738)
	17,943	(7,069)
Investing activities		
Purchase of capital assets	**(7,069)**	(9,828)
Acquisition of subsidiaries	**(19,157)**	(1,047)
Proceeds on sale of capital assets	**900**	1,453
Proceeds on disposition of assets held for sale	**1,041**	5,214
(Increase) decrease in other assets	**(9,466)**	272
Increase in assets held for sale	**–**	(353)
Decrease in other liabilities	**(468)**	(487)
	(34,219)	(4,776)
Financing activities		
Increase in bank indebtedness	**11,890**	9,456
Issuance of long-term debt	**74,888**	9,628
Repayments of long-term debt	**(7,359)**	(5,872)
Decrease in project advances	**–**	(9,316)
Issuance of equity portion of convertible debt	**32,554**	–
Issuance of capital stock	**220**	1,022
Repurchase of capital stock (note 10)	**(990)**	(1,439)
	111,203	3,479
Increase (decrease) in cash and short-term investments	**94,927**	(8,366)
Cash and short-term investments - beginning of year	**6,026**	14,392
Cash and short-term investments - end of year	**$ 100,953**	$ 6,026
Cash paid for:		
Interest	**$ 2,470**	$ 1,540
Income taxes	**$ 167**	$ 262

For the years ended December 31, 1999 and 1998 (in thousands of dollars, except per share amounts)

1. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, as well as its pro rata share of assets, liabilities, revenues, expenses, net income and cash flows of its joint ventures. Note 3 summarizes the effect of the joint ventures on the consolidated financial statements.

Use of significant accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A certain amount of uncertainty is inherent in estimating total costs on large long-term construction projects and obtaining regulatory approvals for development of aggregate sites. The impact on the financial statements of future changes in such estimates could be material.

Cash and cash equivalents

The Company considers investments purchased with original maturities of three months or less to be cash equivalents.

Accounting for contracts

Revenue and income from long-term construction contracts, including contracts in which the Company participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over forecasted final costs. Provision is made for all anticipated losses as soon as they become evident. Claims for additional contract compensation are not recognized until resolved. Provisions for the entire amount of costs relating to such claims, as well as any estimated losses on uncompleted contracts, are made in the period such losses are determined.

Deferred contract costs and unbilled revenue are included in accounts receivable and holdbacks receivable and represent costs incurred and revenue earned in excess of amounts billed on uncompleted contracts. Unearned revenue represents the excess of amounts billed over costs incurred and revenue earned on uncompleted contracts. Contract advances are included in deferred revenue and represent advance payments received from clients for mobilization of project staff, equipment and services.

Inventories

Inventories are recorded at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

Assets held for sale

The Company reclassifies non-current assets to current assets where the assets have been sold and the proceeds of sale are expected to be realized within one year from the date of the consolidated balance sheet as at December 31, 1999.

Capital assets

Capital assets are recorded at historical cost (except for assets held at December 31, 1993, which were recorded at their then estimated fair market value) less accumulated depreciation and amortization. Amortization of gravel properties is calculated using the unit of extraction method. Depreciation of machinery and equipment is provided on a straight-line basis using annual rates that approximate the estimated useful lives of the assets as follows:

Buildings	20 to 40 years
Roadways and leaseholds	5 to 10 years
Construction equipment and vehicles	2 to 15 years
Computer hardware and software	3 to 4 years
Furniture and fixtures	5 years

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract and disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost and is not included in capital assets.

Investments

Investments in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost plus the share of income or loss to date.

Other investments are carried at cost. If there is other than a temporary decline in value, investments are written down to provide for the loss.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of tangible assets acquired and is amortized on a straight-line basis over 5 to 15 years. On an ongoing basis, management reviews the valuation and amortization of goodwill. Goodwill is written down to its fair value when declines in value are considered to be other than temporary, based upon undiscounted future cash flows of the related business.

Income taxes

The Company follows the deferral method of income tax allocation. Deferred income taxes result from timing differences between financial statement and income tax reporting principally relating to the recognition of construction revenue and accelerated tax depreciation. The portion of deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

Pension costs and obligations

The Company sponsors defined contribution pension plans for its salaried employees. The Company matches employee contributions to defined contribution plans, based on a maximum percentage of earnings by employees. The Company's newly acquired subsidiary, BFC Construction Corporation, also maintains a defined benefit pension plan (which had its membership frozen as of January 1, 1998) covering certain of its employees. Current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by independent actuaries using management's best estimate assumptions with accrued benefits pro rated on service. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses, and the difference between the actuarial present value of accrued benefits and the value of pension fund assets at December 23, 1999 are amortized over the expected average remaining service life of the employee group.

Stock-based compensation plans

The Company has one stock-based compensation plan, which is described in Note 10. No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Translation of foreign currencies

The accounts of the Company, its foreign subsidiaries and joint ventures stated in foreign currencies have been translated into Canadian dollars using:

- the fiscal year end exchange rates for monetary items which include cash, amounts receivable, accounts payable and long-term debt;
- exchange rates in effect at the time of the transaction for non-monetary assets, liabilities and deferred credits; and
- exchange rates prevailing during the year for revenue and expenses, except for depreciation which has been translated at rates pertaining to the related assets.

Significant unrealized foreign exchange gains or losses relating to long-term monetary items are deferred and amortized over the remaining life of the monetary item. All other foreign exchange gains or losses are included in the consolidated statements of income.

Calculation of earnings per share

Earnings per share are determined using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are calculated on the assumption that outstanding common share options which were dilutive were exercised at the beginning of the year and the funds derived therefrom were invested at 6.5% (1998 - 7.0%), giving rise to imputed earnings of $8 (1998 - $31). Fully diluted earnings per share with respect to the common shares repurchased during the year pursuant to normal course issuer bids are calculated effective from the date of repurchase.

2. Acquisitions

In 1999, Armbro acquired 100% of the outstanding shares of BFC Construction Corporation ("BFC") for consideration of $106,415. BFC's operations for the period December 23 to December 31, 1999 are included in the Company's consolidated financial statements.

In 1998, Armbro acquired 100% of the outstanding shares of Miwel Construction Limited for consideration of $1,047.

A financial summary of these acquisitions, which were accounted for as purchases, is as follows:

	1999	1998
Net assets acquired		
Non-cash working capital	**$ 9,837**	$ (351)
Capital assets	**25,932**	1,726
Other assets	**6,747**	533
Goodwill	**6,350**	240
	48,866	2,148
Liabilities assumed		
Long-term debt	**20,000**	1,101
Other liabilities	**1,584**	–
Deferred income taxes	**8,125**	–
	29,709	1,101
Net non-cash assets acquired	**19,157**	1,047
Cash acquired	**87,258**	–
Net assets acquired	**$ 106,415**	$ 1,047
Consideration		
Cash	**$ 106,415**	$ 809
Long-term debt	**$ –**	$ 238

3. Joint ventures

The Company participates in several incorporated and unincorporated joint ventures and the consolidated financial statements include the Company's proportionate share of its assets, liabilities, revenues, expenses, net income and cash flows of these joint ventures.

a) The following table breaks out the Company's proportionate share of the assets, liabilities, shareholders' equity, revenues, expenses, net income and cash flows of these joint ventures.

	1999	1998
Assets		
Current	**$ 84,890**	$ 11,818
Capital	**3,253**	1,161
Other	**1,812**	–
	$ 89,955	$ 12,979
Liabilities		
Current	**$ 69,997**	$ 10,986
Long-term	**473**	529
Shareholders' equity	**19,485**	1,464
	$ 89,955	$ 12,979
Revenues	**$ 35,038**	$ 13,665
Expenses	**27,531**	12,435
Net income	**$ 7,507**	$ 1,230
Cash flows from:		
Operating activities	**$ 4,597**	$ 373
Investing activities	**(3,512)**	1,424
Financing activities	**(777)**	(9,164)
	$ 308	$ (7,367)

(b) The Company is contingently liable for obligations of its joint venturers. In each case, all of the assets of the joint ventures, whose book values exceed the liabilities, are available for the purpose of satisfying such obligations.

(c) The Company enters into transactions in the normal course of operations with its joint venturers which are measured at the exchange amount being the amount of consideration established and agreed to by the parties involved. During the year, the Company generated revenues of $297 (1998 - $3,607) from its joint venture partners. At December 31, 1999, the Company has included in accounts receivable $9,110 (1998 - $3,702) owing from its joint venturers.

At December 31, 1999, the Company has included in accounts payable and accrued liabilities nil (1998 - $3,747) owing to its joint venturers.

4. Capital assets

	1999		
	Cost	Accumulated Depreciation	Net
Land and improvements	**$ 9,208**	**$ –**	**$ 9,208**
Buildings	**9,339**	**–**	**9,339**
Gravel properties	**7,878**	**480**	**7,398**
Machinery and equipment	**60,294**	**19,155**	**41,139**
	$ 86,719	**$ 19,635**	**$ 67,084**

	1998		
	Cost	Accumulated Depreciation	Net
Land and improvements	$ 3,440	$ 218	$ 3,222
Buildings	–	–	–
Gravel properties	7,878	389	7,489
Machinery and equipment	43,895	15,124	28,771
	$ 55,213	$ 15,731	$ 39,482

Included in capital assets is equipment of $15,324 (1998 - $14,715) held under capital leases, with accumulated depreciation of $ 5,160 (1998 - $5,386).

5. Other assets

	1999	1998
Aggregate development site	**$ 2,688**	$ 2,565
Goodwill, net of accumulated amortization of $99 (1998 - $37)	**6,679**	391
Shares in an equity accounted company	**4,224**	75
Deposits held in trust	**3,634**	–
Loan receivable	**3,913**	–
Other	**4,658**	264
	$ 25,796	$ 3,295

The Company has invested $2,688 to date in the proposed development of an aggregate site near Caledon, Ontario. The Company anticipates that it will receive, during the first half of 2000, the formal licence and with it the ability to commence extraction activities for the operation of this proposed aggregate site, which will then provide a strategic source of certain aggregate products. During the year, costs of $123 (1998 - $15) relating to the licence application process of this aggregate development site were capitalized to the investment.

The loan receivable is from a joint venturer, is unsecured, has no repayment terms and bears interest at the prime rate plus 3.50%.

6. Bank indebtedness

At December 31, 1999 the Company and certain subsidiaries had operating lines of credit totalling $71,021 (1998 - $12,500), of which $12,806 (1998 - $2,037) was unused. Utilization amounted to $58,215 (1998 - $10,463) and included bank loans of $12,467 (1998 - $9,456) bearing interest at the prime rate, a bank loan of $8,879 bearing interest at the Reserve Bank of India prime rate which is secured by a letter of credit and letters of credit of $36,869 (1998 - $1,007). Of this amount $15,088 (1998 - nil) is included in current liabilities in the Company's consolidated financial statements.

Cash and short-term investments as at December 31, 1999 include $40,237 (1998 - nil) which is deposited at a chartered bank as security for certain of the Company's letters of credit and $22,267 which is on deposit in joint venture and affiliate bank accounts which the Company does not have direct access to.

General security agreements and guarantees from the Company's principal subsidiaries have been pledged as collateral for these facilities.

7. Retirement plans

The Company has defined benefit pensions plans and defined contribution plans covering substantially all employees, other than union employees who are covered by multi-employer pension plans administered by the unions. The Company also has a supplementary executive retirement plan. Benefits under the defined benefit plans are generally based on the employee's years of service and level of compensation.

Financial data with respect to the Company's defined benefit pensions plans as at December 31 is as follows:

	1999	1998
Benefit obligation at end of year	**$ 20,359**	$ –
Fair value of plan assets at end of year	**19,577**	–
Accrued pension cost	**$ 782**	$ –

8. Long-term debt

	1999	1998
Acquisition loan payable	**$ 48,000**	$ –
Subordinated note payable	**30,000**	–
Capital leases and equipment loans with specific equipment provided as security, bearing interest at an average rate of 7.4% (1998 - 7.6%) per annum	**15,646**	14,012
Reducing revolving term bank loan	**4,100**	3,000
Reducing committed term bank loan	**4,261**	–
Acquisition bank loan	**3,814**	–
Other	**168**	313
	105,989	17,325
Less: Amounts due within one year	**70,035**	4,885
	$ 35,954	$ 12,440

The acquisition loan was taken out in connection with the acquisition of BFC Construction Corporation ("BFC") in December 1999. The loan bears interest at prime rate plus 1.0%, is non-revolving and is secured by a pledge agreement whereby the Company has pledged the BFC shares it has acquired as well as an agreement to provide corporate security including a general security agreement and guarantees. The loan is repayable on December 21, 2000 and prepayments can be made at any time during the term without penalty.

The subordinated note is unsecured and bears interest at 9.37% which is payable semi-annually on the 30th of April and October. Principal repayments of $10,000 are due on each of October 30, 2000 through 2002.

The reducing revolving term bank loan is secured and bears interest at prime rate plus 0.75 % (1998 - prime rate plus 0.75%). The available credit limit of this facility is nil as at December 31, 1999 (1998 - $5,190). The balance reduces at the rate of $100 per month (1998 - $105).

The Company's reducing committed term bank loan facility is secured and bears interest at either prime rate plus 0.75% or 1.50%, depending upon the use of funds. The available credit limit of this facility is nil as at December 31, 1999 (1998 - $5,000). The facility reduces at the rate of U.S. $70 per month.

As collateral for the reducing revolving term bank loan and the reducing committed term bank loan, the Company and its subsidiaries have provided general security agreements, which include assignments of accounts receivable, holdbacks receivable and pledges of inventory and equipment, as well as a fixed and floating charge debenture over certain assets of the Company, and guarantees and postponements of claim from its principal subsidiaries.

The acquisition bank loan was taken out in connection with the acquisition of BFC in December 1999. The loan bears interest at prime rate plus 1.0%, is non-revolving and is secured by a general security agreement registered as a first priority charge on all assets of the Company including a possessory pledge over all shares of BFC owned by the Company. The loan is repayable on March 21, 2000 and prepayments can be made at any time during the term without penalty. This loan was fully repaid in January 2000.

At December 31, 1999 the prime interest rate charged by the bank was 6.50% (1998 - 6.75%).

Repayments of long-term debt required within the next five years are estimated as follows:

2000	$ 70,035
2001	16,714
2002	15,689
2003	2,489
2004 and thereafter	1,062
	$ 105,989

9. Convertible debentures

	1999			1998
	Debt	Equity	Total	Total
(a) Convertible secured subordinated debenture	$ –	$ 31,479	$ 31,479	$ –
(b) Convertible secured subordinated debenture	8,865	1,075	$ 9,940	–
Total convertible secured subordinated debentures	$ 8,865	$ 32,554	$ 41,419	$ –

(a) The convertible subordinated debenture of $31,479 was taken out in connection with the acquisition of BFC and bears interest at prime rate plus 1.0%, is convertible into common shares of the Company at $3.60 per common share and matures on January 22, 2004. No interest shall accrue or be payable if the principal amount is converted into common shares of the Company by June 30, 2000. The debenture is secured by a pledge agreement whereby Armbro has agreed to pledge all of the acquired shares of BFC as well as an agreement to provide corporate security including a general security agreement and guarantees. The Company is not entitled to prepay or repay any principal amount until demand by the lender for payment following the occurrence of an event of default. The lender has the mandatory obligation to convert all of the principal amount into common shares, subject to the fulfillment of certain conditions, by June 30, 2000.

All of the conditions required for the mandatory conversion of the debenture were fulfilled during the first quarter of fiscal 2000 and the debenture principal amount was converted into 8,744,197 common shares of the Company on March 20, 2000. Accordingly, this convertible debenture has been classified as equity as it has all of the features associated with common equity.

(b) The convertible subordinated debenture of $9,940 was taken out in connection with the acquisition of BFC and bears interest at prime rate plus 1.0%, is convertible into common shares of the Company and matures on June 30, 2006. The conversion price for $2,822 of debenture principal, representing 783,887 common shares, is equal to $3.60 per share. The remaining principal balance shall be eligible for conversion at such price, and at such times, as common shares are issued to employees pursuant to the exercise of stock options (other than pursuant to the exercise of stock options that were outstanding at December 31, 1999). The conversion prices for the balance of the principal amount shall be a minimum of $3.00 per common share. The debenture is secured by a pledge agreement whereby Armbro has agreed to pledge all of the acquired shares of BFC as well as an agreement to provide corporate security including a general security agreement and guarantees. The Company is not entitled to prepay or repay any principal amount until the earlier of January 1, 2006 or demand by the lender for payment following the occurrence of an event of default. The lender has the right, at its option any time after March 20, 2000 until June 30, 2006, to convert a portion of the principal amount into common shares of the Company. These conversions can only occur when the total of the number of shares being converted and issued to the lender do not exceed 49.99% of the Company's total outstanding common shares after the conversion. Since the provisions of the convertible subordinated debenture permit the Company's primary shareholder to convert that portion of the debenture amount into the number of shares that would enable that shareholder to increase its current common share ownership percentage to 49.99% of the Company's total outstanding common shares from its current shareholding, this amount of the debenture principal has been presented in shareholders' equity.

10. Capital stock

	1999		1998	
Authorized - Unlimited common shares				
Balance-beginning of year	**9,438,402**	**$ 1,914**	8,300,595	$ 979
Common shares issued on exercise of options	**176,283**	**220**	1,659,407	1,022
Common shares repurchased pursuant to Normal Course Issuer Bids	**(331,600)**	**(66)**	(521,600)	(87)
Balance - end of year	**9,283,085**	**$ 2,068**	9,438,402	$ 1,914

During 1999 the Company repurchased 331,600 (1998 - 521,600) of its common shares on the open market pursuant to the terms and conditions of Normal Course Issuer Bids at a net cost of $990 (1998 - $1,439); the amount in excess of the book value of the common shares was charged to retained earnings.

All shares repurchased by the Company pursuant to its Normal Course Issuer Bids have been cancelled.

Under the terms and conditions of the 1998 Stock Option Plan (the "1998 Plan"), the aggregate number of common shares which may be reserved for issuance under the 1998 Plan shall not exceed 1,000,000 common shares. Each option agreement shall specify the period for which the option thereunder is exercisable (which in no event shall exceed 10 years from the date of grant) and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

	1999		1998	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price
Balance outstanding at beginning of year	**176,283**	**$ 1.25**	1,835,690	$ 0.68
Granted	**245,000**	**$ 2.90**	–	$ –
Exercised	**(176,283)**	**$ 1.25**	(1,659,407)	$ 0.62
Forfeited	**–**	**$ –**	–	$ –
Balance outstanding at end of year	**245,000**	**$ 2.90**	176,283	$ 1.25
Options exercisable at end of year	**–**		176,283	$ 1.25

All of the 245,000 options granted to officers, directors and employees in 1999 have a remaining contractual life of 4.3 years. The options have a term of five years and shares vest on the anniversary date of the grant at the rate of 33.33% per annum of the total number of share options granted.

11. Interest

	1999	1998
Interest on long-term debt	**$ 860**	$ 161
Interest on capital leases	**1,168**	1,186
Interest on short-term debt	**511**	193
Interest income	**(754)**	(439)
	$ 1,785	$ 1,101

12. Income taxes

During the year, the Company and its subsidiaries utilized approximately $6,600 (1998 - $12,000) of income tax losses carried forward to eliminate income taxes otherwise payable.

The Company and certain subsidiaries have accumulated non-capital income tax losses of approximately $40,469 (1998 - $21,946), net of timing differences, which may be used to reduce future taxable income and expire in the following years:

2000	$ 763
2001	9,871
2002	836
2003	4,413
2004	2,382
2005	2,839
2006	19,365
	$ 40,469

The following table reconciles income taxes calculated at the statutory rate with the income tax provision in the financial statements:

	1999	1998
	%	%
Combined basic Canadian federal and provincial income tax rate	**44.6**	44.6
Increase (decrease) in tax rate resulting from:		
Benefit of losses not previously recognized	**(34.1)**	(56.2)
Foreign income taxed at lower rates	**(2.8)**	–
Operating losses on which no tax recovery is presently available	**21.7**	18.9
Large corporation tax	**1.5**	3.2
Other	**4.9**	(0.2)
	35.8	10.3

13. Commitments and contingencies

The Company has commitments under operating leases which require the following future minimum payments:

2000	$ 9,153
2001	7,545
2002	5,415
2003	2,571
2004	1,324
	$ 26,008

The Company is involved in claims and litigation primarily arising from the normal course of business for the reimbursement of costs of additional work and of additional costs incurred because of changed conditions. Any settlements or awards will be reflected in the consolidated statements of income as the matters are resolved.

14. Segmented information and business concentration

Armbro has two reportable segments; Construction Operations and Infrastructure Development.

Construction operations

This segment, principally focused during 1999 within Ontario, includes activities related to the construction of highways, bridges, airport runways and related infrastructure, as well as the provision of turnkey site development services for commercial clients. Construction operations also include the manufacture and sale of specialized asphalt, aggregate and precast concrete products, and the provision of materials engineering and quality testing services to the construction industry. The geographic and activity scope of the construction operations segment has been significantly increased by the acquisition of BFC in late December 1999.

Infrastructure development

This segment, international in operational scope, captures the Company's activities relating to the development of infrastructure through build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures. Projects within this segment typically require involvement in the financing of the project, and often will include activities relating to the operation of the facilities once they are complete.

a) Industry segment

	1999				
	Construction Operations	**Infrastructure Development**	**Inter-Segment**	**Corporate**	**Total**
Revenue	**$ 137,377**	**$ 75,811**	**$ (74)**	**$ –**	**$ 213,114**
EBITDA	**6,481**	**11,042**	**–**	**(1,317)**	**16,206**
Depreciation and amortization	**4,035**	**900**	**–**	**26**	**4,961**
Segment operating profit	**2,446**	**10,142**	**–**	**(1,343)**	**11,245**
Interest and income taxes					**5,173**
Net income					**$ 6,072**
Total assets	**403,868**	**54,030**	**–**	**2,652**	**460,550**
Capital expenditures	**4,181**	**2,888**	**–**	**–**	**7,069**
Cash flow from operations	**$ 3,924**	**$ 7,712**	**$ –**	**$ (1,536)**	**$ 10,100**

	1998				
	Construction Operations	Infrastructure Development	Inter-Segment	Corporate	Total
Revenue	$ 134,755	$ 18,031	$ (1,202)	$ –	$ 151,584
EBITDA	8,219	2,776	–	(183)	10,812
Depreciation and amortization	3,926	165	–	42	4,133
Segment operating profit	4,293	2,611	–	(225)	6,679
Interest and income taxes					1,674
Net income					$ 5,005
Total assets	81,818	27,060	–	1,162	110,040
Capital expenditures	9,525	258	–	45	9,828
Cash flow from operations	$ 5,824	$ 3,176	$ –	$ (1,331)	$ 7,669

Approximately 34% (1998 - 62%) of revenue reported in the year related to contracts ultimately with Government of Ontario agencies.

Approximately 2% (1998 - 20%) of accounts receivable and approximately 11% (1998 - 62%) of holdbacks receivable are ultimately owing from Government of Ontario agencies.

b) Geographic segments

	1999	1998
Revenues		
Canada	$ 160,444	$ 145,760
United States	2,154	–
Foreign	50,516	5,824
	$ 213,114	$ 151,584
Capital assets		
Canada	$ 66,758	$ 39,440
United States	292	–
Foreign	34	42
	$ 67,084	$ 39,482

15. Cash flow information

Change in other balances relating to operations:

	1999	1998
Accounts receivable	$ (7,066)	$ (20,566)
Holdbacks receivable	1,468	6,060
Inventories	(404)	(18)
Income taxes	(123)	–
Prepaid expenses	430	(733)
Accounts payable and accrued liabilities	13,036	3,528
Holdbacks payable	1,828	100
Deferred revenue	(2,840)	(2,822)
Income taxes payable	1,622	(287)
Deferred income taxes	(108)	–
	$ 7,843	$ (14,738)

16. Financial instruments

Accounts receivable, prepaid expenses and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the near-term nature of these instruments.

The book value of long-term debts approximate their fair value on a discounted cash flow basis because the majority of these obligations bear interest at rates that vary with the prime rate.

Other financial instruments held or issueable by the Company include holdbacks receivable, non-interest bearing project advances payable or holdbacks payable which are amounts directly related to construction contracts. These amounts by their nature do not bear interest and consideration for the time value of money is thus negotiated into the price of the contracts. The Company does not have plans to sell these financial instruments to third parties and will realize or settle them in the normal course of business. No quoted market price exists for these instruments because they are not traded in an active and liquid market. Accordingly, the fair values of holdbacks receivable, non-interest bearing project advances payable or holdbacks payable are considered to approximate the carrying values.

In addition to long-term debt instruments where the rate of interest varies with prime rate, the Company's exposure to interest rate risk at December 31, 1999 also includes that relating to its short-term deposits of $90,153 (1998 - nil). These cash equivalents, which have a fixed weighted average interest rate of 4.50% as at December 31, 1999, matured and were rolled over on January 4, 2000.

The Company has a foreign concentration of credit risk arising from its exposure to the Nathpa Jharti Hydro-Electric project in India, which at December 31, 1999 amounted to $583 in accounts receivable, nil in deferred contract costs and unbilled revenue, and $40,237 in outstanding letters of credit of which $13,073 appear as unbilled revenue and contract advances on the consolidated balance sheets (1998 - nil).

17. Year 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

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